

Message Text

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ACTION SS-14

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TO SECSTATE WASHDC PRIORITY 5795

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 2812

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FOR UNDER SECRETARY CASEY FROM FUNKHOUSER

DEPT REPEAT AS DESIRED

E. O. 11652: GDS

TAGS: ENRG, EEC, SP

SUBJECT: EUROPEAN OIL PROBLEMS- SUMMARY AND CONCLUSIONS

REF: BRUSSELS 2504

1. RESULTS OF BRIEF VISIT TO SEVEN WEST EUROPEAN CAPITALS AND
ABBREVIATED DISCUSSIONS WITH US AND FOREIGN GOVERNMENT AND
INDUSTRY OIL OFFICIALS FOLLOW:

A. PURPOSE

1. TO SEEK EUROPEAN VIEWS ON SPECIFIC FORMS OF CONSUMER
COOPERATION.
2. TO SEEK EUROPEAN VIEWS ON CONSUMER RELATIONS WITH PRODUCERS.
3. TO SEEK MIDEAST VIEWS ON PRODUCER RELATIONS WITH CONSUMERS
(MIDEAST VISIT CANCELLED).

B. PRINCIPAL OBSERVATIONS AND CONCLUSIONS.

1. UNANIMITY WAS DISPLAYED OVER NEED FOR POSITIVE AND SPECIFIC
US RESPONSE TO EC REQUEST FOR " SHARING THE HARSHIP" IN EMERGENCY
(VARIOUS DEFINITIONS THEREOF). EVEN GERMANS, WHO GENERALLY FAVORED
LEAST GOVERNMENT CONTROL AND RECOGNIZED NEED FOR MOST FLEXIBILITY,
SOUGHT REASSURANCES THAT US MAJORS WOULD NOT DIVERT CRUDE TO US
MARKET IN CRISIS. US ACCEPTANCE IN PRINCIPLE OR IN FACT OF SIMONET' S
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FOUR EMERGENCY PROPOSITIONS WOULD THEREFORE REPRESENT MAJOR, RELATIVELY EASY, AND MOST PRACTICABLE STEP FORWARD TOWARDS COOPERATION DESIRED BY ALLIES.

2. THE SECOND PROBLEM, I. E. HOW TO STABILIZE CURRENT MARKET CONDITIONS, WAS CONSIDERED ONLY SOMEWHAT LESS URGENT, BUT FAR MORE COMPLEX. ON MAY 22 EC MINISTERS WILL TRY TO RESOLVE WIDELY DIVERGENT NATIONAL APPROACHES TO THIS PROBLEM IN ORDER TO PRESENT US WITH UNITED FRONT DURING SIMONET VISIT WASHINGTON MAY 30. NEED FOR TRI-LATERAL US- JAPAN- EC ARRANGEMENTS HAS BEEN ADVANCED TO LEAD PARAGRAPH IN COMMISSION ENERGY MESSAGE (REF 6. A.) AND IMPOSITION GOVERNMENT CONTROLS, GENERALLY FOLLOWING FRENCH MODEL, IS ADVOCATED.

3. ATTRACTION AND COHESION OF EUROPEANS TO GOVERNMENT CONTROLS OF MARKETS AND SUPPLIES IS EXPECTED TO BE PRIMARILY RESPONSIVE TO AVAILABILITY OF CRUDE, AS WELL AS TO DEDICATION AND DRIVE OF FRENCH " DIRIGISTES," WHOM SIMONET WILL REPORTEDLY REPRESENT FOR THREE MORE YEARS. OBVIOUSLY, THE BETTER THE INDUSTRY HANDLES ITS COMMERCIAL PROBLEMS AND THE BETTER CONSUMER GOVERNMENTS HANDLE THEIR POLITICAL AFFAIRS (WITH MIDEAST PRODUCERS), THE LESS SUPPORT EC- SPONSORED MARKET CONTROLS SHOULD ATTRACT. STRONG CONTRADICTIONS AMONG EUROPEANS AND BETWEEN EC- US- JAPAN COULD MAKE EFFORTS TO " ORGANIZE THE MARKET" DIFFICULT, IF NOT IMPOSSIBLE.

4. IF THE " MNC IS THE MOST EFFICIENT AGENT FOR PRODUCING, SELLING AND CONVEYING GOODS, TECHNOLOGY, SKILLS AND MONEY THAT THE WORLD HAS SEEN," IT IS UNDER ATTACK IN EUROPEAN OIL CIRCLES. ACCORDING TO ESSO (FRANCE), IN PAST 15 YEARS THE US SHARE OF FRENCH OIL MARKET AND THAT OF OTHER MULTINATIONAL OIL COMPANIES HAS BEEN RELENTLESSLY REDUCED, AND FRENCH GOVERNMENT- OWNED AND CONTROLLED OIL COMPANIES HAVE THROUGH A COMPREHENSIVE SERIES OF DISCRIMINATORY MEASURES, RATHER THAN EFFICIENCY, BEEN ARBITRARILY AWARDED PRIVILEGED MARKETING, REFINING AND TRANSPORT POSITION. RATIONALE FOR FAVORITISM IS THE SAME AS IN PRODUCING COUNTRIES, IE NATIONAL SECURITY AND NATIONAL PRESTIGE AT HIGH COST TO THE CONSUMER. EXTENSION OF THIS SYSTEM TO THE EC MIGHT THEREFORE BODE ILL FOR US INTERESTS.

5. BRITISH OFFICIALS, BOTH GOVERNMENT AND INDUSTRY, ADVOCATED AS PANACEA TO ESCALATING PRICES THE GENERAL PRINCIPLE OF " APPROVED COMPANIES" (MULTIPLE DEFINITIONS) AND WOULD FAVOR OVERT AND/ OR COVERT

INTERNATIONAL AGREEMENT TO THIS END. THIS SOLUTION IS DESIGNED TO ELIMINATE BROKERS, MINOR INDEPENDENTS, " LEAPFROGGERS" AND " CLAIM JUMPERS," BUT WOULD OFFER OBVIOUS PROBLEMS TO USG AND CONGRESS, PARTICULARLY NOW THAT IMPORT QUOTAS ARE LIFTED AND USG CONTROLS RE-CONFIDENTIAL

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LAXED. BRITISH OIL OFFICIALS WERE IN VANGUARD OF PRO- EC MARKET CONTROLS. BRITISH PETROLEUM (BP), WHICH WAS WIDELY REPORTED TO BE " HARD UP FOR CASH" AND SELLING OUT CERTAIN ASSETS IN EUROPE AND MIDEAST, REPORTEDLY PREFERS GUARANTEED PROFITS UNDER GOVERNMENT CONTROL THAN FREEDOM OF MARKET.

6. GERMAN AND ITALIAN OIL OFFICIALS DIVERGED SHARPLY FROM BRITISH AND FRENCH ON FORM AND SUBSTANCE OF CONTROLS. ITALIAN (ENI) OFFICIAL CRITIZED LENGTHY EC RECOMMENDATIONS FOR " ORGANIZING THE MARKET" AS " BIRTH OF BABY BEFORE PARENTS INTRODUCED," I. E. CONSUMERS AND PRODUCER

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C O N F I D E N T I A L SECTION 2 OF 2 MADRID 2812

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11. WHETHER THROUGH DISCRETION OR HOPE FOR GAIN, THE POLITICAL ASPECTS OF MIDEAST SUPPLY PROBLEM WERE TREATED DELICATELY. AMERICANS WERE THE MOST OUTSPOKEN ABOUT THE ISRAELI ELEMENT IN THE OINTMENT. ITALIANS AND SPANISH ALSO SPOKE CANDIDLY AND ASSIGNED HIGHEST PRIORITY TO THE " POLITICAL APPROACH TO OIL SUPPLIES." IT SEEMED CLEAR THAT ITALIAN AND SPANISH FINANCIAL AND TECHNOLOGICAL WEAKNESSES MIGHT BE BALANCED BY PRO- ARAB POLITICAL POLICY.

12. ODDLY ENOUGH, THE SERIOUS IMPLICATIONS OF A MAJOR SHIFT OF WESTERN FINANCIAL RESOURCES TO MIDEAST WAS DISCUSSED ONLY marginally, EXCEPT BY ITALIANS, WHO ARE PROTAGONISTS FOR EXTENDING MEDITERRANEAN PREFERENTIAL REGION TO PERSIAN GULF. ENI OFFICIAL ASSERTED THAT OPEC WAS SEEKING INDUSTRIAL- INVESTMENT EXCHANGE FOR OIL, WHICH EUROPEAN CONSUMERS SHOULD OFFER TO BALANCE OIL PAYMENTS, TO MAINTAIN HISTORIC

TIES, AND TO MAINTAIN PRICE EQUILIBRIUM BETWEEN EASTERN OIL AND WESTERN GOODS. THE FRENCH PART COMPANY WITH ITALIANS SO FAR AS DIRECT RELATIONSHIP OF OIL FOR GOODS IS CONCERNED, BUT DO WELL ENOUGH INDIRECTLY, E. G. MIRAGES. THE SPANISH CONSIDER BARTER OUTDATED.

13. PROBLEM OF COST CRUNCH FITS INTO SOMEWHAT DIFFERENT PERSPECTIVE WHEN IT IS REALIZED THAT APPROXIMATELY 70 CENTS OF ONE DOLLAR WHICH EUROPEAN GOVTS CHARGE FOR GALLON OF GAS REPRESENT NATIONAL TAXES. THE SHAH ASSERTED PUBLICLY THAT THREE DOLLAR BARREL OF CRUDE IN GULF WAS SOLD FOR FORTY-FIVE DOLLARS IN EUROPE AS PRODUCTS, AND THAT TAXES COLLECTED IN FRANCE ON PERSIAN OIL EXCEEDED TOTAL IRANIAN INCOME BEFORE RECENT CONCESSION REVISIONS. PROBLEM TAKES ON DIFFERENT

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DIMENSION IF WESTERN GOVTS CAN OFFSET PRICE RISES BY TAX REDUCTIONS, ALTHOUGH OBVIOUSLY INCREASED COST TO ECONOMY AS WHOLE WOULD NOT BE REDUCED.

14. PRESIDENTIAL ENERGY MESSAGE WAS GENERALLY CONSIDERED DISAPPOINTING FOR BREVITY OF INTERNATIONAL SECTION, EXCEPT AMONG US OIL EXECUTIVES, WHO HAD FEARED ADVERSE PRODUCER REACTIONS TO EXPECTED CALL FOR CONSUMER ORGANIZATION. BREVITY CAN BE PLAUSIBLY EXPLAINED ON PRIORITY NEED FOR US TO GET DOMESTIC SITUATION IN ORDER IN COMMON WEAL, PLUS NEED TO RECEIVE CONCERTED VIEWS OF EUROPEANS WHO MORE CRITICALLY AFFECTED BY ANY OIL SHORTAGE.

15. " AFTER YOU, ALFONSE" ATTITUDE AMONG CONSUMERS GENERALLY PREVAILS, EUROPEANS ADVOCATING US LEADERSHIP IN CONSUMER COOPERATION SINCE US IS BIGGEST POWER, HAS MOST OPTIONS, IDENTIFIED PROBLEM FIRST, ENCOURAGED GOVT INTERCESSION INTO OIL BUSINESS, AND CAN INFLUENCE SITUATION MOST FOR BETTER OR WORSE. ALL, HOWEVER, RECOGNIZE NEED TO STEER CONSUMER COORDINATION CAUTIOUSLY AND SILENTLY BETWEEN SCYLLA AND CHARYBDIS, THE WHIRLPOOL INTO WHICH INACTIVE CONSUMERS CAN BE COLLECTIVELY SUCKED AND THE MULTIHEADED ARAB BEAST WHICH DEVOURS CONSUMERS SEPARATELY. USG PRESCIENCE IN FORESEEING THE FUTURE WAS WIDELY ADMIRER, BUT SOME THOUGHT IT SHOULD BE VOICED IN CHANCELLARIES RATHER THAN MINARET.

C. RECOMMENDATIONS.

1. A. TO INFORM SIMONET AND OECD IN CLEAREST POSSIBLE TERMS THAT, IN TIME OF EMERGENCY, USG WILL SHARE THE HARDSHIP AND WILL WORK WITH MNC'S TO CONTINUE TRADITIONAL PATTERNS OF TRADE.

B. TO ACCEPT IN PRINCIPLE ALL FOUR SIMONET PROPOSITIONS FOR EMERGENCIES AND COMMIT USG TO WORK WITH EC ON SUCH CONTINGENCY PLANNING ASAP.

2. A. TO STATE THAT USG IS PREPARED TO CONSIDER ALL OTHER CONSUMER MECHANISMS FOR SHORT SUPPLY SITUATIONS WITH DUE REGARD TO RELATIONS WITH PRODUCING COUNTRIES.

B. TO INDICATE RESERVATIONS RE PRACTICABILITY OF INTERNATIONAL AGREEMENT AMONG CONSUMERS IN WORLD WITH ABUNDANT RESERVES OF OIL AND WHERE

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